

Message Text

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SUBJECT: STATEMENT ON FOREIGN INVESTMENT CLIMATE IN GUINEA

REF: STATE 165596

THE REPUBLIC OF GUINEA GENERALLY COOPERATES WITH FOREIGN PRIVATE AND GOVERNMENTAL INVESTORS. PRIVATE INVESTORS REPRESENTING U.S. AND WESTERN EUROPEAN FIRMS ARE ENGAGED IN LARGE AND MEDIUM SCALE INVESTMENT PROJECTS WITH THE GUINEAN GOVERNMENT, AS ARE THE GOVERNMENTS OF THE SOVIET UNION AND OTHER COMMUNIST COUNTRIES. OPIC HAS GRANTED A TOTAL OF \$156.9 MILLION IN POLITICAL RISK INSURANCE TO AMERICAN FIRMS, NONE OF WHICH HAS BEEN CLAIMED. GUINEA POSSESSES ALMOST HALF OF KNOWN WORLD BAUXITE RESERVES, ABOUT TWO BILLION TONS OF HIGH GRADE IRON ORE, DIAMONDS, PLENTIFUL WATER AND AGRICULTURAL POTENTIAL.

THE GUINEAN ECONOMY IS SOCIALIST; THERE IS NO PRIVATE OWNERSHIP OF REAL ESTATE; DOMESTIC AND INTERNATIONAL COMMERCIAL ACTIVITY IS NATIONALIZED, AND IMPORTS ARE RIGIDLY CONTROLLED. PRICES AND WAGES ARE LARGELY DETERMINED BY GOVERNMENT EDICT. SINCE INDEPENDENCE IN 1958 THE ECONOMY HAS BEEN STAGNANT WITH PER CAPITA INCOME AT APPROXIMATELY \$90 PER YEAR.

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THE CURRENT FIVE-YEAR DEVELOPMENT PLAN (1973-1978) EMPHASIZES FOOD PRODUCTION. THE GOVERNMENT IS SEEKING INVESTMENT FOR PLANNED PROJECTS IN AGRICULTURE, STOCK RAISING, COMMERCIAL FISHING AND EXTRACTIVE INDUSTRY. MOST INVESTMENT THAT COULD SERVE TO REDUCE DEPENDENCE UPON IMPORTS OR TO INCREASE EXPORTS WOULD BE WELCOME. THERE ARE NO EXPORT CONTROLS. INVESTMENT SHOULD BE GEARED LARGELY TO EXPORT TRADE SINCE THE LOCAL CURRENCY IS GROSSLY OVER-VALUED AND NOT FREELY CONVERTIBLE, AND OFFICIAL FOREIGN EXCHANGE RESERVES ARE TIGHT.

SINCE NEGOTIATION OF THE BOKE BAUXITE PROJECT IN THE MID-SIXTIES, AGREEMENTS WITH FOREIGN INVESTORS HAVE TYPICALLY PROVIDED FOR AT LEAST 49 PCT GUINEAN GOVERNMENT OWNERSHIP. INVESTMENT AGREEMENTS REQUIRE PROGRESSIVE TRAINING OF GUINEANS TO FILL JOBS AT ALL LEVELS. INVESTORS WHOSE PROJECTS EARN FOREIGN EXCHANGE HAVE BEEN PERMITTED TO REMIT PROFITS ABROAD. LOCAL PROCUREMENT OF RAW MATERIALS AND INTERMEDIATE INPUTS IS RESTRICTED ONLY BY VERY LIMITED AVAILABILITY. ANTI-TRUST LAWS DO NOT EXIST IN GUINEA. THERE ARE NO FCN, AER, OR DOUBLE TAXATION TREATIES WITH THE UNITED STATES. GUINEA IS A MEMBER OF THE INCIPENT ECONOMIC COMMUNITY OF WEST AFRICAN STATES, WHICH IS DESIGNED TO LEAD TO A CUSTOMS UNION AND TO HARMONIZATION OF MONETARY AND INDUSTRIAL POLICIES.

WITHIN THIS FRAMEWORK, THE GUINEAN GOVERNMENT IS FLEXIBLE IN REACHING AGREEMENTS WITH FOREIGN INVESTORS. SINCE DECISION-MAKING POWER IS CONCENTRATED IN THE EXECUTIVE, GUINEAN LAWS DO NOT HINDER THE NEGOTIATION OF A SATISFACTORY AGREEMENT AND NATIONAL ASSEMBLY RATIFICATION IS PRO FORMA. EXCEPTIONAL BUREAUCRATIC OBSTACLES AND GUINEAN SECURITY SENSITIVITY COMPLICATE AL

ECONOMIC ACTIVITY. BASED ON PAST EXPERIENCE, A FOREIGN INVESTOR CAN COUNT UPON THE GUINEAN GOVERNMENT TO ABIDE BY PROVISIONS OF AGREEMENTS SIGNED, ALTHOUGH NEW EXPORT TAXES NOT PERMITTED UNDER THE RELATED INVESTMENT AGREEMENTS WERE IMPOSED UPON BAUXITE PRODUCERS (AND THEN NEGOTIATED OUT WITH THEM) IN 1975. THE KEY TO SUCCESSFUL OPERATIONS IN GUINEA IS TO ESTABLISH RELATIONS OF MUTUAL CONFIDENCE WITH THE GOVERNMENT AND TO JUDGE THE GOVERNMENT BY ITS ACTIONS AND NOT ITS ANTI-CAPITALIST UNCLASSIFIED

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RHETORIC.

PRESENT AMERICAN INVESTMENT OF APPROXIMATELY \$160 MILLION IS ALMOST ENTIRELY IN BAUXITE PRODUCTION, ALTHOUGH AN AMERICAN PETROLEUM COMPANY, IN A MIXED VENTURE WITH THE GUINEAN GOVERNMENT, WILL BEGIN OFFSHORE OIL DRILLING IN THE FALL OF 1975. A JOINT VENTURE FISHING ENTERPRISE, NOW DORMANT, WAS FORMED BY ANOTHER AMERICAN COMPANY IN 1974.

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